

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT'S
MANAGEMENT OF THE DRAWDOWN OF
REIMBURSABLE EXPENDITURES**



CHARLES C. MADDOX, ESQ.

INSPECTOR GENERAL

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



November 14, 2003

Stanley Jackson
Director
Department of Housing and Community Development
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Washington, D.C. 20002

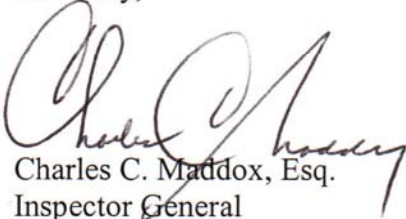
Dear Mr. Jackson:

Enclosed is the final audit report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Department of Housing and Community Development's Management of the Drawdown of Reimbursable Expenditures (OIG No. 02-1-9DB (b)). The overall audit was requested by the Director, Department of Housing and Community Development (DHCD).

Our audit disclosed that DHCD did not reimburse the District for 34 home mortgage loans (\$506,828) completed by the Greater Washington Urban League (GWUL) in a timely manner. DHCD concurred with this finding, and implemented our recommendation to complete the draw downs, prior to the completion of the audit. In addition, DHCD improved its internal controls over the drawdown process and implemented written policies and procedures, as well as designated a federal funds coordinator to provide oversight of DHCD's management of funds received from the U.S. Department of Housing and Urban Development. DHCD's response is incorporated in its entirety at Exhibit E of this report.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.
Inspector General

CCM/ws

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November 14, 2003
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**AUDIT OF THE DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT'S
MANAGEMENT OF THE DRAWDOWN
OF REIMBURSABLE EXPENDITURES**

ACRONYMS

CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
DHCD.....	Department of Housing and Community Development
EAHP	Employer Assisted Housing Program
FY	Fiscal Year
GWUL.....	Greater Washington Urban League
HPAP.....	Home Purchase Assistance Program
HOME.....	HOME Investment Partnerships Program
HUD.....	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
LOCCS.....	Letter of Credit Control System
MPHAP	Metropolitan Police Housing Assistance Program
OIG.....	Office of the Inspector General, District of Columbia
RCS.....	Residential and Community Services
SOAR	System of Accounting and Reporting

**AUDIT OF THE DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT’S
MANAGEMENT OF THE DRAWDOWN
OF REIMBURSABLE EXPENDITURES**

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EXECUTIVE DIGEST

OVERVIEW

The Office of the Inspector General, District of Columbia (OIG), has completed an audit of the District of Columbia Department of Housing and Community Development's (DHCD) management of the drawdown of reimbursable expenditures for Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) grant funds. Those funds were provided by the U.S. Department of Housing and Urban Development (HUD).

This audit is the third in a series of audits that will evaluate DHCD's management of resources and monitoring of project performance. The first audit in this series discussed DHCD's management of HOME funds, and the second audit (not yet finalized) discusses DHCD's management of the Walter E. Washington Estates Community Center project. Upcoming reports are planned to focus on DHCD's management of Community Development Corporation projects, and cash advances to the Greater Washington Urban League (GWUL). The overall audit was requested by the Director, Department of Housing and Community Development.

CONCLUSIONS

DHCD did not submit to HUD for reimbursement (drawdown) the HOME funds portion of 32 of 110 (29 percent) home mortgage loans. DHCD also did not draw down the CDBG funds portion of 2 of 456 (.4 percent) home mortgage loans provided by the GWUL. The HOME and CDBG funds portions of the mortgage loans completed by the GWUL are considered eligible reimbursable expenditures. As a result, DHCD had not obtained \$506,828 in reimbursable HOME and CDBG expenditures from HUD for 34 completed mortgage loans in order to reimburse District of Columbia general fund accounts in a timely manner.

As a result of this audit, DHCD initiated actions to draw down funds from HUD amounting to \$506,828 for 34 mortgage loans. In addition, as a result of a prior audit that also concerned drawdowns, DHCD established formal drawdown administrative procedures and appointed an internal federal funds coordinator.

Although we believe that the causes for the failure to draw down the 32 mortgage loans using HOME funds are similar to those discussed in Final Audit Report No. 02-1-9DB(a), we also believe that the actions taken by DHCD to establish administrative procedures by the issuance of Administrative Instruction 3000-003 and the appointment of a federal funds coordinator to monitor the process should resolve the problems identified in the audit reports.

EXECUTIVE DIGEST

Further, Administrative Instruction 3000-003 and the appointment of a Federal Funds Coordinator are applicable to the drawdown of CDBG funds and should preclude problems for this type of funding as well. Finally, an examination of Integrated Disbursement and Information System (IDIS) reports also showed that DHCD was initiating drawdowns from HUD at least monthly since May 2003. Therefore, we do not address further recommendations to DHCD concerning those issues in this audit report. DHCD's response is incorporated in its entirety at Exhibit E of this report.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

INTRODUCTION

BACKGROUND

Department of Housing and Community Development. The Department of Housing and Community Development (DHCD) receives approximately 80 percent of its funding through the U.S. Department of Housing and Urban Development (HUD) and focuses its programs on three areas: (1) increasing home ownership opportunities; (2) preserving and increasing the supply of affordable housing through new construction and rehabilitation; and (3) revitalizing neighborhoods, promoting community development, and providing economic opportunities. Home ownership programs provide financial assistance in the form of interest-free and low interest loans to qualified District residents to enable them to purchase houses, condominiums, or cooperative apartments. DHCD uses Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) grant funds to aid in accomplishing its focus area of increasing home ownership opportunities. DHCD's home ownership programs are described at Exhibit B.

Community Development Block Grant Entitlement Grants. HUD allocates CDBG Entitlement Program grant funds annually on a formula basis to entitled cities and counties. HUD awards those funds to entitlement communities to carry out a wide range of community development activities directed toward revitalizing neighborhoods, economic development, and providing improved community facilities and services. More specifically, CDBG funds are used to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for low and moderate income persons (incomes below 80 percent of the area median income).

HOME Investment Partnerships Program. HUD allocates HOME grant funds annually on a formula basis among eligible State and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing for very low income and low income families. State and local governments that become participating jurisdictions may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, new construction of housing, and tenant-based rental assistance. Participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investment, interest subsidies, and other forms of investment that HUD approves.

Drawdown of Reimbursable Expenditures. A drawdown is the process by which DHCD requests financial reimbursement from HUD for valid expenditures previously incurred by DHCD using District of Columbia funds. This audit report discusses processes used by DHCD to draw down reimbursements from HUD for CDBG funds prior to mid-June 1999, CDBG funds after mid-June 1999, and HOME funds for fiscal year (FY) 1998 through FY 2002. The drawdown processes are described at Exhibit C.

INTRODUCTION

Title 24 Code of Federal Regulations Definitions. Title 24 CFR § 92.2 (LEXIS through Sept. 19, 2003) defines home ownership as, *inter alia*, ownership in a “fee simple title or a 99-year leasehold interest in a one- to four-unit dwelling or in a condominium unit. . . .” This statute defines a grant subrecipient as a “public agency or nonprofit organization selected by the participating jurisdiction to administer all or a portion of the participating jurisdiction’s HOME program.” *Id.* Similarly, for the CDBG Entitlement Program, 24 CFR § 570.500(c) (LEXIS through Sept. 19, 2003) defines a grant subrecipient as a public or private nonprofit agency, authority, or organization, or a for-profit entity authorized under § 570.201(o), receiving CDBG funds from the recipient or another subrecipient to undertake activities eligible for such assistance under subpart C of this part.”¹

OBJECTIVES, SCOPE, AND METHODOLOGY

The revised announced objectives of the overall audit were to evaluate: (1) project management of grant funds within DHCD and grant funds provided to Community Development Corporations and other grant subrecipients; (2) reconciliation and accounting for those grant funds within DHCD; and (3) benefits and appropriate use of those funds by Community Development Corporations and other grant subrecipients.

During the initial stages of the overall audit, we identified weaknesses in DHCD’s management of drawdowns from HUD for reimbursable expenditures associated with HOME funds that were provided to the District of Columbia Housing Finance Agency by DHCD. As a result, our specific objective in this segment of the overall audit was to determine whether DHCD had implemented a timely and accurate process by which it requests and obtains financial reimbursement from HUD for valid expenditures previously incurred.

The scope of this audit covered the processes used by DHCD to draw down reimbursements from HUD of: (1) approximately \$7.5 million in CDBG funds from October 1, 1997, to June 15, 1999 (FY 1998 and partially FY 1999); (2) approximately \$8.8 million in CDBG funds from June 16, 1998, through September 30, 2002 (partially FY 1999, FY 2000 through FY 2002); and (3) approximately \$2.2 million in HOME funds for FY 1998 through FY 2002. The programs in our scope for which reimbursable expenditures were made included the Home Purchase Assistance Program (HPAP), the Employer Assisted Housing Program (EAHP), and the Metropolitan Police Housing Assistance Program (MPHAP).

We conducted interviews with DHCD management and administrative staff to gain a general understanding of the policies, procedures, and other controls used by DHCD in the drawdown processes. We reviewed monthly beneficiary data submitted by GWUL showing

¹ Subpart C refers to the provisions relating to eligible activities that may be funded with CDBG monies. Section 570.201(o) pertains specifically to the provision of funding to recipients and subrecipients to encourage economic development.

INTRODUCTION

completed mortgage loans for HPAP, EAHP, and MPHAP, as well as GWUL payment requests for work performed requiring HOME and CDBG expenditures. We also reviewed DHCD vouchers and other supporting records concerning those HOME and CDBG expenditures. In addition, we reviewed HUD Integrated Disbursement and Information System (IDIS) reports to determine whether mortgage loans completed by GWUL for HPAP, EAHP, and MPHAP were promptly and accurately submitted by DHCD to HUD for reimbursement.

We relied on computer-processed data obtained from the HUD IDIS reports to evaluate the drawdown processes for each completed home mortgage. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that expenditure amounts and loan values reviewed generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in this report. The audit covered the period FY 1998 through FY 2002, was conducted in accordance with generally accepted government auditing standards, and included such tests as we considered necessary under the circumstances.

FINDING

FINDING: DRAWDOWN OF REIMBURSABLE EXPENDITURES

SYNOPSIS

DHCD did not submit to HUD for drawdown the HOME funds portion of 32 of 110 (29 percent) home mortgage loans and the CDBG funds portion of 2 of 456 (.4 percent) home mortgage loans completed by GWUL. The HOME and CDBG funds portions of the mortgage loans completed by GWUL are considered to be eligible reimbursable expenditures. DHCD did not submit eligible expenditures to HUD for drawdown because DHCD did not comply with applicable federal regulations requiring day-to-day management of its HOME operations. In addition, DHCD did not have specific procedures and controls in place to ensure that periodic account reconciliations were performed on mortgage loans reported by GWUL that needed to be submitted to HUD for drawdown. As a result, DHCD had not obtained \$506,828 in reimbursable HOME and CDBG expenditures from HUD for the 34 completed mortgage loans in order to reimburse District of Columbia general fund accounts in a timely manner. Subsequently, but during the audit, DHCD initiated actions to draw down funds from HUD amounting to \$506,828 for the 34 mortgage loans.

For purposes of clarity, we note that CDBG and HOME funds were not actually used for home ownership mortgage loans and other administrative expenses; rather, funds from District of Columbia general fund accounts were transferred to the Greater Washington Urban League (GWUL), which is a civil rights/social services organization which builds private and public partnerships to provide many types of services, among them being and housing/community development services. However, the transactions discussed in this audit report are referred to in terms of “CDBG funds” or “HOME funds,” as this is industry practice. District of Columbia general fund accounts are subsequently reimbursed by the drawdown of CDBG and HOME funds.

DISCUSSION

Federal regulations provide guidance for the management of HOME funds by participating jurisdictions. The guidance is found in Title 24 CFR Part 92, “HOME Investment Partnerships Program.”

Title 24 CFR § 92.504(a) (LEXIS through Sept. 19, 2003) states that a “participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate actions when performance problems arise.” Title 24 CFR § 92.508(a) requires that each participating jurisdiction establish and maintain sufficient records and 24 CFR § 92.508(a)(5)(iv) requires that records maintained at participating jurisdictions demonstrate adequate budget control, to include evidence of periodic account reconciliations.

FINDING

Drawdown of HOME Investment Partnerships Program Reimbursable Expenditures

DHCD did not submit to HUD for draw down the HOME funds portion of 32 of 110 (29 percent) home mortgage loans completed by GWUL during FY 1998 through FY 2002. DHCD should have submitted timely drawdown requests because the HOME funds portions of the mortgage loans completed by GWUL constitute eligible reimbursable expenditures.

Grant Agreements. Grant Agreement No. 1191-14 (effective October 1, 1994, through December 31, 1999, was executed between the District of Columbia (represented by DHCD) and GWUL. According to the statement of work in the grant agreement, GWUL is to administer the District's HPAP, EAHP, MPHAP, and the Homeownership Developer's Incentive Fund. Grant Agreement No. 1294-14-RD-00 (effective January 1, 2000, through December 31, 2003, (with an option to extend one additional year). was executed between District of Columbia (represented by DHCD) and GWUL. The statement of work in the second grant agreement, stated that GWUL is to administer the District's HPAP, EAHP, MPHAP, Home Purchase Assistance Step-Up Program and the Homeownership Developer's Incentive Fund. However, we did not include the Home Purchase Assistance Step-Up Program or the Homeownership Developer's Incentive Fund in our evaluation of drawdowns.

Completed Mortgage Loans. For FY 1998 through FY 2002, GWUL completed 110 home mortgage loans using HOME funds provided by DHCD. As required by the grant agreements, beneficiary reports showing completed HPAP, EAHP, and MPHAP mortgage loans were provided by GWUL to the DHCD Residential and Community Services (RCS) Division monthly. The report showed the mortgage loans completed during the previous month and the mortgage loans that were in the closing process. The beneficiary report also contained the loan recipient's name and address, the amount of the HOME funded portion of the mortgage loan, the amount of the first trust of the mortgage loan, as well as other relevant data.

Reconciliation of Mortgage Loans Reported. We performed a reconciliation of completed mortgage loans reported by GWUL on its beneficiary reports for FY 1998 through FY 2002 against an IDIS report entitled "List of Activities by Program Year and Project, District of Columbia" dated October 1, 2002. The IDIS report shows mortgage loans that have been completed and drawn down from HUD by DHCD. Our reconciliation showed that 32 mortgage loans, with a HOME portion valued at \$477,665, had not been submitted to HUD by DHCD for reimbursement. The 32 mortgage loans appeared on the GWUL beneficiary reports but were not found on the IDIS report.

We provided the results of our reconciliation to DHCD management who initiated action during our audit to draw down the funds from HUD for the mortgage loans. We performed a second reconciliation to verify those drawdowns using an IDIS report dated January 14, 2003. Our reconciliation showed that 30 mortgage loans, with a HOME portion valued at \$447,770, had been submitted to HUD by DHCD for reimbursement but that 2 mortgage

FINDING

loans amounting to \$29,895 had not been submitted as of January 14, 2003. Those two mortgage loans were submitted to HUD for drawdown on September 16, 2003.

Further, we calculated the elapsed days from the completion date of the 32 mortgage loans through the drawdown date. The elapsed days ranged from a low of 206 days to a high of 957 days. Table 1 shows the range of elapsed days from the completion date to the drawdown date and the associated value of the HOME portion of those 32 mortgage loans.

Table 1. Analysis of Lapsed Days Since Mortgage Loan Completion Date		
Range of Days Between Mortgage Loan Completion Date and Drawdown Date	Number of Completed Mortgage Loans Not Submitted to HUD	HOME Portion of the Completed Mortgage Loans
1-90	0	\$ 0
91-180	0	0
181-365	30	447,770
Greater than 365	2	29,895
Total	32	\$477,665

Failure to Manage Day-to-Day Operations and to Comply with Federal Regulations

DHCD did not comply with applicable federal regulations requiring day-to-day management of its HOME operations. Additionally, DHCD did not have specific procedures and controls in place to ensure that periodic account reconciliations were performed on mortgage loans reported by GWUL that needed to be submitted to HUD for drawdown. Although the information on the 32 mortgage loans was available through beneficiary reports submitted by GWUL, the information for those mortgage loans was not always used to enter project set-ups into the IDIS. Therefore, DHCD was unable to initiate the drawdown of HOME funds from HUD in a timely manner.

FINDING

Procedures and Controls. Further, at the time we performed our reconciliations of completed mortgage loans against the IDIS reports, DHCD did not have written procedures and controls in place governing the process to draw down HOME funds from HUD. Further, DHCD did not maintain adequate records to show the drawdown processes or periodic account reconciliations. Without written procedures and adequate records, we were unable to verify the efficiency of processes and verify the validity of internal controls. In addition, without written procedures to describe necessary processes, internal controls, and adequate records to document the processes, DHCD management cannot effectively ensure accountability of personnel in accomplishing its mission and the agency is susceptible to fraud and/or waste in its operations.

Drawdown of Community Development Block Grant Reimbursable Expenditures

Federal regulations provide guidance for the management of CDBG Entitlement Grants by entitlement communities. The guidance is found in Title 24 CFR Part 570, "Community Development Block Grants". For FY 2000 through FY 2002, GWUL completed 456 home mortgage loans using CDBG funds provided by DHCD.

Drawdown Process for Community Development Block Grant Funds Prior to Mid-June 1999. From October 1, 1997, through June 15, 1999 (FY 1998 and partially FY 1999), DHCD utilized the HUD Letter of Credit Control System (LOCCS) to draw down CDBG funds for HPAP, EAHP, and MPHAP. LOCCS did not require the tracking of either individual mortgage loans or overall activities. Therefore, the drawdown process reconciled annual DHCD revenues, expenditures, and program income and reimbursements from HUD. As a result, the net amount by which DHCD gross expenditures exceeded the net revenue collected was used as the amount requested for drawdown from HUD. The drawdown processes are described in detail at Exhibit C.

We examined this process for FY 1998. However, due to the nature of the process and the lack of a DHCD intermediate accounting document that linked the HUD voucher numbers and amounts for drawdowns to the DHCD voucher numbers and amounts, we could not trace the voucher numbers or amounts of HUD drawdowns shown on the IDIS² to DHCD voucher numbers and amounts. Our review was complicated by the fact that the HUD voucher could represent one or more DHCD vouchers while the DHCD voucher could represent one or more specific CDBG expenditures or vendor requests for payment and could not be tracked under LOCCS. Therefore, we could not determine an effective technique to trace and evaluate the detailed supporting documentation (e.g., beneficiary reports and other types of invoices submitted by the GWUL) for the DHCD vouchers and amounts. As a result, we could not opine on whether supporting documentation could be obtained from DHCD for the drawdown of reimbursable CDBG expenditures for FY 1998 or the accuracy and timeliness of those drawdowns. We did not continue our examination for the partial period in FY 1999 in which the LOCCS was in use.

² The IDIS was initiated subsequent to the LOCCS and contained some incomplete historical information from the LOCCS period.

FINDING

Drawdown Process for Community Development Block Grant Funds After Mid-June 1999. On June 16, 1999, DHCD began to use the HUD IDIS to draw down CDBG funds for HPAP, EAHP, and MPHAP. Also, in June 1999, DHCD improved its drawdown process by developing an intermediate accounting document. This document links HUD voucher numbers and amounts for drawdowns (by using an IDIS Activity Identification Number) to DHCD voucher numbers and amounts, as well as to the detailed supporting documentation for the same. Further, in August 2002, DHCD effectively implemented its Housing Development Software as part of the drawdown process.

We examined this process from October 1, 1999, through September 30, 2002 (FY 2000 through FY 2002). Due to the improvements in the process, we were able to trace HUD voucher numbers and amounts for drawdowns by activity to DHCD voucher numbers and amounts and to the detailed supporting documentation for the DHCD vouchers and amounts. As a result, we determined that DHCD did not submit to HUD for drawdown the CDBG funds portion of 2 of 456 (.4 percent) home mortgage loans valued at \$29,163 and completed by GWUL during FY 2000 through FY 2002. The CDBG funds portions of the mortgage loans completed by GWUL are considered to be eligible reimbursable expenditures. However, we do not believe that these two mortgage loans represent a material problem, and we attribute the occurrence to administrative oversight rather than to a systemic problem.

Prior Audit Coverage

Our final Audit Report No. 02-1-9DB(a), "Audit of the Department of Housing and Community Development's Management of the HOME Investment Partnerships Program," issued on September 30, 2002, discussed the drawdown of HOME reimbursable funds during the period of September 9, 1998, through June 6, 2002, for home mortgage loans completed by the District of Columbia Housing Finance Agency. The results shown in that audit report, as well as the overall results for that audit and this audit, are discussed at Exhibit D.

Response to Audit Report No. 02-1-9DB(a) Recommendations. In the draft of Final Audit Report No. 02-1-9DB(a), we recommended that DHCD establish specific written procedures and internal controls to ensure that all eligible HOME expenditures are submitted to HUD for reimbursement in a timely manner and that adequate records be maintained to document the drawdown process.

In response to those audit report recommendations, DHCD officials stated that an Administrative Issuance detailing drawdown procedures and internal controls would be prepared for implementation no later than November 30, 2002. In addition, DHCD officials stated that they would designate a HOME Coordinator within the Office of Program Monitoring by November 1, 2002, to consolidate the overall oversight of the HOME grant program. We found that those actions had been taken. DHCD Administrative Instruction 3000-003, "Set-Up, Funding and Drawdown for Federally-Funded Activities" was issued as a draft on July 22, 2003, and became effective on September 11, 2003. Further, a DHCD Federal Funds Coordinator was appointed on January 30, 2003.

FINDING

Conclusion

In this audit, we found that DHCD did not submit to HUD for drawdown the HOME funds portion of 32 of 110 home mortgage loans completed by GWUL during the period of FY 1998 through FY 2002. In addition, we found that DHCD did not submit to HUD for drawdown the CDBG funds portion of 2 of 456 home mortgage loans completed by GWUL during the period of FY 2000 through FY 2002. As a result, DHCD had not obtained \$506,828 in reimbursable HOME expenditures from HUD for 34 completed mortgage loans in order to reimburse District of Columbia general fund accounts in a timely manner.

We note that the failure to promptly draw down HOME and CDBG funds might result in unnecessary interest costs being incurred by the District of Columbia due to the untimely reimbursement of its general fund accounts. However, we did not determine the amount of those potential interest costs.

We believe that the actions taken by DHCD to establish administrative procedures by the issuance of Administrative Instruction 3000-003 and the appointment of a Federal Funds Coordinator to monitor the processes may resolve the problems identified in the audit reports. Further, Administrative Instruction 3000-003 and the appointment of a Federal Funds Coordinator are also applicable to the drawdown of CDBG funds and should preclude problems for this type of funding. Finally, an examination of IDIS reports also showed that DHCD was initiating drawdowns from HUD at least monthly since May 2003. Therefore, we did not address further recommendations to DHCD concerning those issues in this audit report.

EXHIBIT A

**SUMMARY OF POTENTIAL MONETARY BENEFITS
RESULTING FROM AUDIT**

Recommendations	Description of Benefit	Amount and Type of Benefit
Recommendations to draw down HOME Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) grant funds for 34 home mortgage loans were made to the Department of Housing and Community Development (DHCD) during the audit.	Program Results. DHCD took actions to initiate the drawdown of funds for all 34 mortgage loans and completed those drawdowns of HOME and CDBG funds from the U.S. Department of Housing and Urban Development.	\$506,828 for reimbursement of District of Columbia general fund accounts.

EXHIBIT B

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT HOME OWNERSHIP PROGRAMS

Home ownership programs provide financial assistance in the form of interest-free and low interest loans to qualified District residents to enable them to purchase houses, condominiums, or cooperative apartments. Overall, the Department of Housing and Community Development (DHCD) offers five programs for its focus area of increasing home ownership opportunities and three programs designed to retain home ownership. The Home Purchase Assistance Program, the Employer Assisted Housing Program, the Metropolitan Police Housing Assistance Program, the First Right Purchase Program, and the Tenant Purchase Technical Assistance Program are programs that provide assistance for the purchase of homes in the District of Columbia. The Single Family Residential Rehabilitation Program, the Handicapped Access Improvements Program, and the Senior Citizen Home Repair and Improvement Program are designed to retain home ownership.

Home Purchase Assistance Program. The Home Purchase Assistance Program, DHCD's principal home ownership program, provides financial assistance in the form of interest-free or low interest loans to meet down payment and closing cost requirements. The loans enable low- and moderate-income (households with incomes below 80 percent of the area median income) individuals and families to purchase affordable single family homes, condominiums, or cooperative units in the District of Columbia. The amount of the loan is based on several factors, including income, household size, and the amount of assets that an applicant can commit toward the purchase price.

Employer Assisted Housing Program. The Employer Assisted Housing Program provides District of Columbia employees with an increased opportunity to become first-time homeowners by offering matching down payments and deferred loans.

Metropolitan Police Housing Assistance Program. The Metropolitan Police Housing Assistance Program provides District of Columbia police officers with an increased opportunity to become first-time homeowners through matching down payments, deferred loans, and property tax credits.

First Right Purchase Program. The First Right Purchase Program provides direct, short-term, and permanent financing loans to low and moderate income individuals and tenant groups to exercise their rights under the District of Columbia's First Right Purchase Law.

Tenant Purchase Technical Assistance Program. The Tenant Purchase Technical Assistance Program provides development services for tenant groups purchasing their apartment building as a cooperative or condominium.

EXHIBIT C

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT DRAWDOWN PROCESSES

For the purposes of this audit, we defined a drawdown as the process by which the Department of Housing and Community Development (DHCD) requests financial reimbursement from the U.S. Department of Housing and Urban Development (HUD) for valid expenditures previously incurred by DHCD using District of Columbia funds. However, the process may vary depending on whether the drawdown involved Community Development Block Grant (CDBG) or HOME Investment Partnerships Act (HOME) grant funds and the time period in which the drawdown request was initiated. Below are descriptions of the processes used by DHCD to draw down reimbursements from HUD for CDBG funds prior to mid-June 1999, CDBG funds after mid-June 1999, and for HOME funds.

Drawdown Process for Community Development Block Grant Funds Prior to Mid-June 1999. From October 1, 1997, through June 15, 1999 (fiscal year (FY) 1998 and partially FY 1999), DHCD utilized the HUD Letter of Credit Control System (LOCCS) to draw down CDBG funds for the Home Purchase Assistance Program (HPAP), Employer Assisted Housing Program (EAHP), and the Metropolitan Police Housing Program (MPHAP). (These programs are described at Exhibit B.) During that time period, the use of the District's Financial Management System ended on September 30, 1998, and the Financial Management System financial records were transferred into the System of Accounting and Reporting (SOAR) as of that date.

LOCCS did not require the tracking of either individual mortgage loans or overall activities. Therefore, the drawdown process first determined DHCD net revenues (gross reimbursements from HUD, based upon DHCD expenditures through a particular period, offset by the amount of program income collected by DHCD). Next, the amount of gross expenditures, offset by net revenue collected, was entered into LOCCS. The net amount by which gross expenditures exceeded the net revenue collected was used as the amount requested for drawdown by DHCD. Subsequently, upon notification that funds had been received from the U.S. Treasury (via wire transfer), revenue documents were forwarded to the Office of the Treasurer of the District of Columbia for input into SOAR.

Drawdown Process for Community Development Block Grant Funds After Mid-June 1999. Beginning June 16, 1999, DHCD utilized the HUD Integrated Disbursement Information System (IDIS) to draw down CDBG funds for HPAP, EAHP, and MPHAP. In August 2002, DHCD effectively implemented its Housing Development Software as part of the drawdown process.

EXHIBIT C

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT DRAWDOWN PROCESSES

CDBG guidance did not require records of individual mortgage loans but did require the tracking of overall activities. In the present drawdown process, according to DHCD Administrative Instruction 3000-003, "Set-Up, Funding and Drawdown of Federally-Funded Activities," the initial steps are to establish the overall activity in the Housing Development Software to obtain an IDIS Activity Identification Number.

The vendor (in this case, the Greater Washington Urban League (GWUL)) submits requests for payment (supported by beneficiary reports and other expense invoices) to the DHCD Residential and Community Services (RCS) Division for expenditures incurred in the administration of HPAP, EAHP, and MPHAP. For requests for payment not presented against a previous advance (charges against advances are not drawn down), a RCS Division manager reconciles the request for payment against the supporting documentation, establishes an obligation in SOAR by creating a purchase order, prepares a written instruction for payment, and submits the written instruction to the Office of the Comptroller for review. If there are no discrepancies, funding is established in IDIS in the same amount as the purchase order and a voucher is established in SOAR.

The DHCD Comptroller produces the Executive Information System report weekly to show the prior week's SOAR cash expenditures. The Comptroller ensures that an accurate IDIS Activity Identification Number is shown, if applicable, makes a final determination as to whether the funds can be drawn down, and approves the drawdown. Once the drawdown is complete, the IDIS generates a HUD voucher number.

The IDIS Activity Identification Number provides a link between the HUD voucher and the DHCD voucher for the CDBG expenditures. The HUD voucher could represent one or more DHCD vouchers while the DHCD voucher could represent one or more specific CDBG expenditures or vendor requests for payment. Upon notification that funds had been received from the U.S. Treasury (via wire transfer), revenue documents are forwarded to the Office of the Treasurer of the District of Columbia for input into the SOAR.

Drawdown Process for HOME Investment Partnerships Act Funds. DHCD generally utilized the same process to draw down HOME funds for FY 1998 through FY 2002 for HPAP, EAHP, and MPHAP. However, in contrast to CDBG procedures, HOME guidance required the tracking of individual mortgage loans rather than the tracking of overall activities or projects. Title 24 CFR § 92.502(b)(1) (LEXIS through Sept. 19, 2003) requires a participating jurisdiction "to enter complete project set-up information at the time of the project set-up." In addition, 24 CFR § 92.502(c)(1) states that after complete project set-up information has been entered into the IDIS, HOME funds for the project may be drawn down

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from the U.S. Treasury account by the participating jurisdiction through electronic funds transfer.

In the present drawdown process, according to DHCD Administrative Instruction 3000-003, "Set-Up, Funding and Drawdown of Federally-Funded Activities," the vendor (in this case, GWUL) submits requests for payment (supported by beneficiary reports and other expense invoices) to the RCS Division for expenditures incurred in the administration of HPAP, EAHP, and MPHAP. The vendor is also required to submit HOME Set-up and Completion reports to the RCS Division. RCS Division personnel establish the complete activity set-up information (in this case, the individual borrower's home mortgage information) by entering the vendor's HOME Set-up and Completion report information in the Housing Development Software to obtain an IDIS Activity Identification Number.

RCS Division personnel then forward a memorandum to the Office of the Comptroller, listing the beneficiaries and IDIS Activity Identification Numbers, to request individual beneficiary activities be funded and drawn down. If there are no discrepancies, funding is established in IDIS in the same amount as the detailed information provided and funds are ready to be drawn down. However, prior to August 2002, RCS Division personnel set-up and funded projects directly in IDIS using the beneficiary information provided by GWUL for HPAP, EAHP, and MPHAP.

The DHCD Comptroller produces the Executive Information System report weekly to show the prior week's SOAR cash expenditures. The Comptroller ensures that an accurate IDIS Activity Identification Number is shown, if applicable, makes a final determination as to whether the funds can be drawn down, and approves the drawdown. Once the drawdown is complete, the IDIS generates a HUD voucher number.

As described above for the CDBG post-June 1999 process, the IDIS Activity Identification Number provides a link between the HUD voucher and the DHCD voucher for the CDBG expenditures. Upon notification that funds had been received from the U.S. Treasury (via wire transfer), revenue documents are forwarded to the Office of the Treasurer of the District of Columbia for input into the SOAR.

HOME drawdowns were verified on the following reports: "U.S. Department of Housing and Urban Development Office of Community Planning and Development Integrated Disbursement and Information System Drawdown Report By Projects and Activity District of Columbia Report Number C04PR05" and the "U.S. Department of Housing and Urban Development Office of Community Planning and Development Integrated Disbursement and

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DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT DRAWDOWN PROCESSES

Information System List of Activities by Program Year and Project District of Columbia
Report Number C04PR02.”

EXHIBIT D

FINAL AUDIT REPORT NO. 02-1-9DB(a) “AUDIT OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT’S MANAGEMENT OF THE HOME INVESTMENT PARTNERSHIPS PROGRAM”

Office of the Inspector General, District of Columbia, Final Audit Report No. 02-1-9DB(a), “Audit of the Department of Housing and Community Development’s Management of the HOME Investment Partnerships Program,” September 30, 2002, discussed the drawdown of HOME Investment Partnerships Program (HOME) reimbursable funds during the period of September 9, 1998, through June 6, 2002. The report showed that the Department of Housing and Community Development (DHCD) did not submit to the U.S. Department of Housing and Urban Development (HUD) for drawdown the HOME portion of 28 of 108 (26 percent) home mortgage loans completed by District of Columbia Housing Finance Agency. The report further stated that, as a result, DHCD failed to obtain \$1,315,178 in reimbursable HOME expenditures from HUD for the 28 completed mortgage loans and did not reimburse District of Columbia general fund accounts in a timely manner.

Overall Audit Results. Overall, in that audit and this audit, we examined 218 completed home mortgage loans in which HOME funds were used. Those mortgage loans were made by the District of Columbia Housing Finance Agency for the period September 9, 1998, and June 6, 2002 (108 loans), and the Greater Washington Urban League for the period FY 1998 through 2002 (110 loans). The results of the combined audit projects showed that DHCD did not submit to HUD for drawdown the HOME portion of 60 of 218 (27.5 percent) mortgage loans. As an overall result, DHCD failed to obtain \$1,792,843 in reimbursable HOME expenditures from HUD for the 60 completed mortgage loans and did not reimburse District of Columbia general fund accounts in a timely manner.

We noted that the failure to promptly draw down HOME funds might result in unnecessary interest costs being incurred by the District of Columbia due to the untimely reimbursement of its general fund accounts. We did not determine the amount of those potential interest costs for the \$1,792,843.

Further, we calculated the elapsed days from the completion date of the 60 mortgage loans through the drawdown date. The elapsed days ranged from a low of 77 days to a high of 957 days. Table 2 shows the range of elapsed days from the completion date to the drawdown date and the associated value of the HOME portion of those 60 mortgage loans.

EXHIBIT D

FINAL AUDIT REPORT NO. 02-1-9DB(a) “AUDIT OF THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT’S MANAGEMENT OF THE HOME INVESTMENT PARTNERSHIPS PROGRAM”

Table 2. Analysis of Lapsed Days Since Mortgage Loan Completion Date		
Range of Days Between Mortgage Loan Completion Date and Drawdown Date	Number of Completed Mortgage Loans Not Submitted to HUD	HOME Portion of the Completed Mortgage Loans
1-90	6	\$ 277,494
91-180	8	495,566
181-365	37	739,601
Greater than 365	9	280,182
Total	60	\$1,792,843

Drawdown Actions Taken as a Result of Final Audit Report No. 02-1-9DB(a). After we notified DHCD through a draft of the above noted report that HOME funds had not been drawn down and deposited in District of Columbia general fund accounts, DHCD initiated prompt action and the drawdowns for the 28 mortgage loans were completed by August 30, 2002. Funds amounting to \$1,315,178 were deposited in District of Columbia general fund accounts.

EXHIBIT E

DHCD MANAGEMENT RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



Office of the Director

October 24, 2003

Mr. Charles Maddox
Inspector General
Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Mr. Maddox:

I am in receipt of the DC Office of Inspector General's (DC OIG) draft report entitled "Audit of the Department of Housing and Community Development's Management of the Drawdown of Reimbursable Expenditures" dated October 16, 2003. The DC OIG reported that the Department of Housing and Community Development (DHCD) did not complete draw downs from the U.S. Department of Housing and Urban Development (HUD) in a timely manner. Specifically, DHCD did not reimburse the District for 34 home mortgage loans (\$506,828) completed by the Greater Washington Urban League (GWUL) in a timely manner.

DHCD concurs with this finding, and before the draft report was issued, implemented the DC OIG recommendation to complete the draw downs. In addition, as noted in the draft report, DHCD also improved its internal controls over the drawdown process and implemented written policies and procedures, as well as designated a Federal Funds Coordinator to provide oversight of DHCD's management of its funds received from HUD.

Thank you for the opportunity to provide comments to this report. Please feel free to contact Wilma G. Matthias, Deputy Director for the Office of Program Monitoring at (202) 442-7241 or me at (202) 442-7210, if there are any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Stanley Jackson", is written over a horizontal line.

Stanley Jackson
Director

cc: [REDACTED]